

Assessment

Module 14: Self-Employment Income and the Self-Employment Tax

Part 1

Determine whether the workers below are employees or self-employed. Answer the following questions by typing the words *employee* or *self-employed* in the space provided. To assess your answers, click the *Check My Answers* button at the bottom of the page.

- 1) Pizza delivery driver for Number 1 Pizza

- 2) House painter who works for herself

- 3) House painter who works for A-1 Painting

- 4) Restaurant critic for the newspaper

- 5) Book reviewer for numerous magazines and newspapers who decides what books he is willing to review and when he will do the review

- 6) A yoga instructor who gives classes in her home

Part 2

Answer the following questions by typing your answers in the space provided. To assess your answers, click the *Check My Answers* button at the bottom of the page.

- 1) Which tax form is used to calculate self-employment profit?

- 2) Which form reports payments made to independent contractors?

- 3) Which form reports salary payments made to employees?

- 4) Which tax form is used to calculate the self-employment tax?

- 5) Who prepares Form W-2?

- 6) Who completes Schedule SE?

Part 3

Walter Siebert is the full-time office manager at a car dealership. On his own time he has a pet care business, which involves exercising, grooming, and feeding pets when the owners are out of town. Review Schedules C-EZ and SE for Walter Siebert by clicking the buttons *View Schedule C-EZ* and *View Schedule SE*. Then, answer the following questions by typing your answers in the space provided. To assess your answers, click the *Check My Answers* button at the bottom of the page.

[View Form Schedule C-EZ](#)[View Form Schedule SE](#)

1) What form did Walter use to report his self-employment profit?

2) What were Walter's gross receipts for his pet care business?

3) What was Walter's self-employment profit?

4) Where is Walter's self-employment profit reported on Form 1040?

5) What is Walter's self-employment tax?

6) Does the self-employment tax increase or decrease Walter's total tax?

7) Does one-half of Walter's self-employment tax increase or decrease his income subject to tax?

[Check My Answers](#)

**SCHEDULE C-EZ
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Name of proprietor

Net Profit From Business

(Sole Proprietorship)

- **Partnerships, joint ventures, etc., must file Form 1065 or 1065-B.**
► **Attach to Form 1040, 1040NR, or 1041. ► See instructions on back.**

OMB No. 1545-0074

2007

Attachment
Sequence No. **09A**

Social security number (SSN)

Part I General Information

**You May Use
Schedule C-EZ
Instead of
Schedule C
Only If You:**

- Had business expenses of \$5,000 or less.
- Use the cash method of accounting.
- Did not have an inventory at any time during the year.
- Did not have a net loss from your business.
- Had only one business as either a sole proprietor or statutory employee.

And You:

- Had no employees during the year.
- Are not required to file **Form 4562**, Depreciation and Amortization, for this business. See the instructions for Schedule C, line 13, on page C-4 to find out if you must file.
- Do not deduct expenses for business use of your home.
- Do not have prior year unallowed passive activity losses from this business.

A Principal business or profession, including product or service

B Enter code from pages C-8, 9, & 10

C Business name. If no separate business name, leave blank.

D Employer ID number (EIN), if any

E Business address (including suite or room no.). Address not required if same as on page 1 of your tax return.

City, town or post office, state, and ZIP code

Part II Figure Your Net Profit

- 1 Gross receipts. Caution.** If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see **Statutory Employees** in the instructions for Schedule C, line 1, on page C-3 and check here ☐
- 2 Total expenses** (see instructions). If more than \$5,000, you **must** use Schedule C.
- 3 Net profit.** Subtract line 2 from line 1. If less than zero, you **must** use Schedule C. Enter on both **Form 1040, line 12**, and **Schedule SE, line 2**, or on **Form 1040NR, line 13**. (Statutory employees **do not** report this amount on Schedule SE, line 2. Estates and trusts, enter on Form 1041, line 3.)

1

2

3

Part III Information on Your Vehicle. Complete this part **only** if you are claiming car or truck expenses on line 2.

4 When did you place your vehicle in service for business purposes? (month, day, year) ► ____/____/____.

5 Of the total number of miles you drove your vehicle during 2007, enter the number of miles you used your vehicle for:

a Business **b** Commuting (see instructions) **c** Other

6 Do you (or your spouse) have another vehicle available for personal use? ☐ **Yes** ☐ **No**

7 Was your vehicle available for personal use during off-duty hours? ☐ **Yes** ☐ **No**

8a Do you have evidence to support your deduction? ☐ **Yes** ☐ **No**

b If "Yes," is the evidence written? ☐ **Yes** ☐ **No**

Instructions

You can use Schedule C-EZ instead of Schedule C if you operated a business or practiced a profession as a sole proprietorship or you were a statutory employee and you have met all the requirements listed in Schedule C-EZ, Part I.

Line A

Describe the business or professional activity that provided your principal source of income reported on line 1. Give the general field or activity and the type of product or service.

Line B

Enter the six-digit code that identifies your principal business or professional activity. See pages C-8 through C-10 of the instructions for Schedule C for the list of codes.

Line D

You need an employer identification number (EIN) only if you had a qualified retirement plan or were required to file an employment, excise, estate, trust, or alcohol, tobacco, and firearms tax return. If you need an EIN, see the Instructions for Form SS-4. If you do not have an EIN, leave line D blank. Do not enter your SSN.

Line E

Enter your business address. Show a street address instead of a box number. Include the suite or room number, if any.

Line 1

Enter gross receipts from your trade or business. Include amounts you received in your trade or business that were properly shown on Forms 1099-MISC. If the total amounts that were reported in box 7 of Forms 1099-MISC are more than the total you are reporting on line 1, attach a statement explaining the difference. You must show all items of taxable income actually or constructively received during the year (in cash, property, or services). Income is constructively received when it is credited to your account or set aside for you to use. Do not offset this amount by any losses.

Line 2

Enter the total amount of all deductible business expenses you actually paid during the year. Examples of these expenses include advertising, car and truck expenses, commissions and fees, insurance, interest, legal and professional services, office expenses, rent or lease expenses, repairs and maintenance, supplies, taxes, travel, the allowable percentage of business meals and

entertainment, and utilities (including telephone). For details, see the Instructions for Schedule C, Parts II and V, on pages C-3 through C-8. If you wish, you can use the optional worksheet below to record your expenses. Enter on lines **b** through **g** the type and amount of expenses not included on line **a**.

If you claim car or truck expenses, be sure to complete Schedule C-EZ, Part III.

Line 5b

Generally, commuting is travel between your home and a work location. If you converted your vehicle during the year from personal to business use (or vice versa), enter your commuting miles only for the period you drove your vehicle for business. For information on certain travel that is considered a business expense rather than commuting, see the Instructions for Form 2106.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Internal Revenue Code section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is approved under OMB control number 1545-1973 and is shown below.

Recordkeeping 45 min.

Learning about the law or the form 4 min.

Preparing the form. 35 min.

Copying, assembling, and sending the form to the IRS 20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

Optional Worksheet for Line 2 (keep a copy for your records)

a	Deductible business meals and entertainment (see pages C-5 and C-6)	a		
b	.....	b		
c	.....	c		
d	.....	d		
e	.....	e		
f	.....	f		
g	.....	g		
h	Total. Add lines a through g . Enter here and on line 2	h		



SCHEDULE SE
(Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Self-Employment Tax

▶ Attach to Form 1040. ▶ See Instructions for Schedule SE (Form 1040).

OMB No. 1545-0074

2007

Attachment
Sequence No. 17

Name of person with self-employment income (as shown on Form 1040)

Social security number of person
with self-employment income ▶

Who Must File Schedule SE

You must file Schedule SE if:

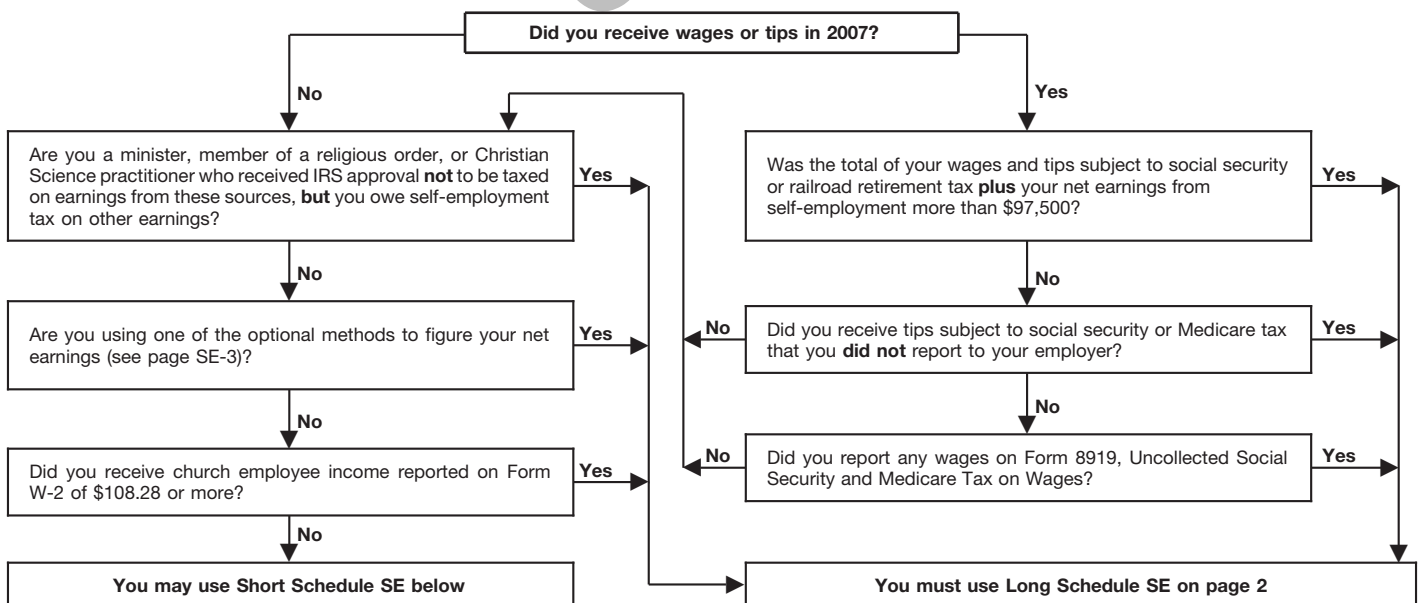
- You had net earnings from self-employment from **other than** church employee income (line 4 of Short Schedule SE or line 4c of Long Schedule SE) of \$400 or more, **or**
- You had church employee income of \$108.28 or more. Income from services you performed as a minister or a member of a religious order **is not** church employee income (see page SE-1).

Note. Even if you had a loss or a small amount of income from self-employment, it may be to your benefit to file Schedule SE and use either "optional method" in Part II of Long Schedule SE (see page SE-3).

Exception. If your only self-employment income was from earnings as a minister, member of a religious order, or Christian Science practitioner **and** you filed Form 4361 and received IRS approval not to be taxed on those earnings, **do not** file Schedule SE. Instead, write "Exempt-Form 4361" on Form 1040, line 58.

May I Use Short Schedule SE or Must I Use Long Schedule SE?

Note. Use this flowchart **only** if you must file Schedule SE. If unsure, see Who Must File Schedule SE, above.



Section A—Short Schedule SE. **Caution.** Read above to see if you can use Short Schedule SE.

1	Net farm profit or (loss) from Schedule F, line 36, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A	1		
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see page SE-1 for amounts to report on this line. See page SE-3 for other income to report	2		
3	Combine lines 1 and 2	3		
4	Net earnings from self-employment. Multiply line 3 by 92.35% (.9235). If less than \$400, do not file this schedule; you do not owe self-employment tax ▶	4		
5	Self-employment tax. If the amount on line 4 is: • \$97,500 or less, multiply line 4 by 15.3% (.153). Enter the result here and on Form 1040, line 58. • More than \$97,500, multiply line 4 by 2.9% (.029). Then, add \$12,090 to the result. Enter the total here and on Form 1040, line 58.	5		
6	Deduction for one-half of self-employment tax. Multiply line 5 by 50% (.5). Enter the result here and on Form 1040, line 27	6		

Name of person with self-employment income (as shown on Form 1040)	Social security number of person with self-employment income ▶			
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Section B—Long Schedule SE**Part I Self-Employment Tax**

Note. If your only income subject to self-employment tax is **church employee income**, skip lines 1 through 4b. Enter -0- on line 4c and go to line 5a. Income from services you performed as a minister or a member of a religious order **is not** church employee income. See page SE-1.

A If you are a minister, member of a religious order, or Christian Science practitioner and you filed Form 4361, but you had \$400 or more of other net earnings from self-employment, check here and continue with Part I.	<input type="checkbox"/>
1 Net farm profit or (loss) from Schedule F, line 36, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A. Note. Skip this line if you use the farm optional method (see page SE-4)	1
2 Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see page SE-1 for amounts to report on this line. See page SE-3 for other income to report. Note. Skip this line if you use the nonfarm optional method (see page SE-4)	2
3 Combine lines 1 and 2	3
4a If line 3 is more than zero, multiply line 3 by 92.35% (.9235). Otherwise, enter amount from line 3	4a
b If you elect one or both of the optional methods, enter the total of lines 15 and 17 here . . .	4b
c Combine lines 4a and 4b. If less than \$400, stop ; you do not owe self-employment tax. Exception. If less than \$400 and you had church employee income , enter -0- and continue.	4c
5a Enter your church employee income from Form W-2. See page SE-1 for definition of church employee income	5a
b Multiply line 5a by 92.35% (.9235). If less than \$100, enter -0-	5b
6 Net earnings from self-employment. Add lines 4c and 5b	6
7 Maximum amount of combined wages and self-employment earnings subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax for 2007	7 97,500 00
8a Total social security wages and tips (total of boxes 3 and 7 on Form(s) W-2) and railroad retirement (tier 1) compensation. If \$97,500 or more, skip lines 8b through 10, and go to line 11	8a
b Unreported tips subject to social security tax (from Form 4137, line 9)	8b
c Wages subject to social security tax (from Form 8919, line 10)	8c
d Add lines 8a, 8b, and 8c	8d
9 Subtract line 8d from line 7. If zero or less, enter -0- here and on line 10 and go to line 11 . ▶	9
10 Multiply the smaller of line 6 or line 9 by 12.4% (.124)	10
11 Multiply line 6 by 2.9% (.029)	11
12 Self-employment tax. Add lines 10 and 11. Enter here and on Form 1040, line 58	12
13 Deduction for one-half of self-employment tax. Multiply line 12 by 50% (.5). Enter the result here and on Form 1040, line 27	13

Part II Optional Methods To Figure Net Earnings (see page SE-3)

Farm Optional Method. You may use this method only if (a) your gross farm income ¹ was not more than \$2,400, or (b) your net farm profits ² were less than \$1,733.	
14 Maximum income for optional methods	14 1,600 00
15 Enter the smaller of: two-thirds ($\frac{2}{3}$) of gross farm income ¹ (not less than zero) or \$1,600. Also include this amount on line 4b above	15
Nonfarm Optional Method. You may use this method only if (a) your net nonfarm profits ³ were less than \$1,733 and also less than 72.189% of your gross nonfarm income, ⁴ and (b) you had net earnings from self-employment of at least \$400 in 2 of the prior 3 years.	
Caution. You may use this method no more than five times.	
16 Subtract line 15 from line 14	16
17 Enter the smaller of: two-thirds ($\frac{2}{3}$) of gross nonfarm income ⁴ (not less than zero) or the amount on line 16. Also include this amount on line 4b above	17

¹From Sch. F, line 11, and Sch. K-1 (Form 1065), box 14, code B.

²From Sch. F, line 36, and Sch. K-1 (Form 1065), box 14, code A.

³From Sch. C, line 31; Sch. C-EZ, line 3; Sch. K-1 (Form 1065), box 14, code A; and Sch. K-1 (Form 1065-B), box 9, code J1.

⁴From Sch. C, line 7; Sch. C-EZ, line 1; Sch. K-1 (Form 1065), box 14, code C; and Sch. K-1 (Form 1065-B), box 9, code J2.

